FISCAL NOTE

Bill #:	HB0216	**Title:**	Tax credit for health insurance premiums
Primary Sponsor:	Mckenney, J	**Status:**	As Introduced

Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY 2004 Difference	FY 2005 Difference
Expenditures:		
General Fund	$663,617	$722,578
Revenue:		
General Fund	$(20,900,500)	$(41,801,000)
Net Impact on General Fund Balance:	$(21,564,117)	$(42,523,578)

☐	Significant Local Gov. Impact	☒	Technical Concerns
☐	Included in the Executive Budget	☒	Significant Long-Term Impacts
☐	Dedicated Revenue Form Attached	☒	Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Department of Revenue

1. This bill would allow qualified employers to claim a credit against corporation license tax or personal income tax for employee health insurance premiums paid in calendar years 2004 through 2008. The credit is limited to the lower of (a) half of total premiums or (b) $100 per month for each employee or spouse if the average age of the group is less than 45 ($125 per month if the average age is 45 or more) plus $40 per month for up to two dependents per employee.
2. To receive the credit, an employer must register with the State Auditor's Office, must have no employees with total compensation of more than $150,000 per year, and must have fewer employees than a limit to be set by the State Auditor's Office.
3. The credit is refundable. An employer may direct the Department of Revenue either to apply the credit against tax liability or to use the credit amount to make periodic payments to the employer's benefit plan carrier.
4. This bill would allow individuals who live in a household with gross household income less than 175% of the federal poverty guideline to claim a credit against personal income tax for health insurance premiums paid in calendar years 2004 through 2008 provided the individual pays the entire cost of the policy. The credit is limited to the lower of a) 75% of total premiums, or b) $125 per month ($75 per month if the taxpayers is under 19, and $200 per month if the taxpayer is over 45) plus $40 per month for up to two dependents. To receive the credit, an individual must register with the State Auditor's Office.

5. The credit is refundable. The taxpayer may direct the Department of Revenue to either apply the credit against tax liability or use the credit amount to make periodic payments to the employer's benefit plan carrier.
6. The State Auditor's Office is to register employers and individuals for the credits on a first-come-first-served basis until the total amount of credits anticipated equals $45 million. The full amount of the credit will be granted, and 17,100 employers and 11,900 individuals will register. (State Auditor's Office)
7. Individuals who claim the credit may not also use the deduction for health insurance premiums. All eligible taxpayers who use the deduction for health insurance premiums now would take the credit rather than the deduction.
8. The amount of deductions that would not be taken under this bill equals the amount deducted for medical insurance premiums in 2001 by taxpayers who met the eligibility requirements of this bill in 2001, less an adjustment for taxpayers who itemized deductions in 2001 but would have used the standard deduction if this credit had been available.
9. In 2001, 38,997 income tax returns reported combined income of less than 175% of the poverty guideline for a household with the reported number of exemptions, itemized deductions, and took the deduction for medical insurance premiums. The total amount of medical insurance premium deductions on these returns was $94.559 million. On some of these returns, the other itemized deductions are less than the standard deduction. Under this bill, these taxpayers would take the credit and the standard deduction. The other eligible taxpayers who used the deduction had total medical insurance premium deductions of $87.652 million.
10. The average of the marginal tax rates for eligible taxpayers who used the medical insurance deduction in 2001 was 3.65%. The fact that individuals may not take the credit and deduct medical insurance premiums would reduce the revenue impact by $3.199 million (3.65% x $87.652 million). The net reduction in calendar year revenue to the general fund would be $41.801 million ($45 million - $3.199 million).
11. Taxpayers would begin directing the Department of Revenue to make payments to health benefit plan carriers at the beginning of calendar 2004. Revenue to the general fund in fiscal 2004 would be reduced by half of the calendar year impact, or $20,900,500. Revenue to the general fund in fiscal 2005 would be reduced by $41.801 million.
12. Sections 3 and 8 of the bill require the Department of Revenue to make direct, periodic credit payments to health benefit plan carriers for employers and individuals who request the Department to do so. In some cases the credit may be payable to more than one health benefit plan carrier for a single employer or individual. This will require extensive systems development and record keeping procedures to adequately track and monitor credit payments. Any questions that surface related to billing and payments issues will include not only the taxpayer and benefit provider, but the Department as well. The Department would incur additional audit expense in this process as well to ensure that correct credit payments are billed and paid. To administer the provisions of this bill the Department of Revenue will need 7 additional FTE in fiscal 2004 and 8 additional FTE in fiscal 2005. Additional administrative expenses total $226,915 in fiscal 2004 and $309,939 in fiscal 2005.

State Auditor's Office

13. State Auditor's Office will be responsible for the eligibility and outreach programs for the small group and individual health insurance tax credit program included in this bill.
14. Each employer and individual that proposes to claim under the provisions of this bill must be registered with the State Auditor's Office (SAO). This registration must include the number of claimed tax credits.
15. The (SAO) will need 7.0 FTE to implement this program. These FTE would consist of a Grade 15 Bureau Chief, 5.0 Grade Twelve Eligibility and Compliance Specialist, and 1.0 Grade Twelve Financial Specialist and related operating costs to implement this program.

16. SAO assumes the tax credits and the expenditure related to implementing the eligibility and outreach programs for the small group and individual health insurance tax credit program included in this bill will be funded by the general fund.

FISCAL IMPACT:	FY 2004	FY 2005
Department of Revenue	Difference	Difference
FTE	7.00	8.00
Expenditures:		
Personal Services	$159,091	$269,775
Operating Expenses	$17,974	$28,564
Equipment	$49,850	$11,600
TOTAL	$226,915	$309,939
State Auditor's Office		
FTE	7.00	7.00
Expenditures:		
Personal Services	$234,039	$234,039
Operating Expenses	$202,663	$178,600
TOTAL	$436,702	$412,639
Funding of Expenditures: **Dept of Revenue and State Auditor**		
General Fund (01)	$663,617	$722,578
Revenues:		
General Fund (01)	$(20,900,500)	$(41,801,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	$(21,564,117)	$(42,523,578)

LONG-RANGE IMPACTS:

The credits allowed in this bill may not be claimed for insurance premiums paid after December 31, 2008.

TECHNICAL NOTES:

1. Section 3 allows employers to claim a credit against either corporation license tax or personal income tax. Several places in sections 2 and 3 refer to eligible employers as corporations.
2. Sections 3 and 8 allow taxpayers to "request that the department make direct credit payments to the health benefit plan carrier." It is not clear whether the intent is for the department to make payments equal to the anticipated amount of credit to be claimed for the current year or the actual amount of credit claimed for the previous year. This fiscal note assumes the former.
3. Section 2, which provides for the health insurance credit for employees of corporations, refers to credit amounts based on the average age of "the group". This term is not defined in the bill.
4. Section 3, subsection (8); and Section 8, subsection (7); discuss that the department may grant a reasonable extension of time for filing a claim. It is unclear why this language is needed as taxpayers are not being asked to pay anything in the bill, but are being allowed either a credit or provided a payment.
5. Section 7 provides that qualifying individuals may apply for the health insurance credit under the condition that they incurred the premium costs during calendar years 2004 through 2008. It is not clear why the incurring of premium costs is limited to this time frame. If the intent is to provide for a sunset on

this credit, this could be better accomplished through specific language clearly stating that the credit sunsets after a certain tax year.

6. Section 2 of the bill provides for tax credits for employers who employ 4 to 9 employees; however, the bill does not specify whether these must be full-time employees of if part-time employees also qualify.